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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of

JOINT PETITION OF CFA AND NCTA  
FOR RULEMAKING AND REQUEST FOR  
ESTABLISHMENT OF A JOINT BOARD

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RM-8221

COMMENTS OF  
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Pursuant to the Commission's Public Notice released April 21, 1993,<sup>1</sup> American Telephone and Telegraph Company ("AT&T") comments on the Joint Petition for Rulemaking and Request for Establishment of a Joint Board filed on April 8, 1993 by the Consumer Federation of America and the National Cable Television Association, Inc. ("Joint Petition").

The Joint Petition requests commencement of a rulemaking to establish separations, cost accounting and cost allocation rules for video dialtone service.<sup>2</sup> The Joint Petition further seeks establishment of a Federal-State Joint Board to recommend procedures for separating the cost of local telephone company plant that is used jointly to provide telephone service and video dialtone.<sup>3</sup>

<sup>1</sup> Public Notice, DA 93-463, (released April 21, 1993).

<sup>2</sup> Joint Petition, pp. 14-22.

<sup>3</sup> Id., pp. 11-13.

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The Petitioners express concern (pp. 2-4) that the complex regulatory cost issues presented by deployment of video dialtone services cannot be resolved adequately on an ad hoc basis in the context of the Section 214 application proceedings in which the Commission reviews local exchange carrier ("LEC") video dialtone proposals. For example, Petitioners note (p. 12) that, absent changed rules, the vast majority of video dialtone costs will be allocated to intrastate jurisdictions even though all of the associated video dialtone revenues are considered interstate revenues. This result misaligns costs and revenues.








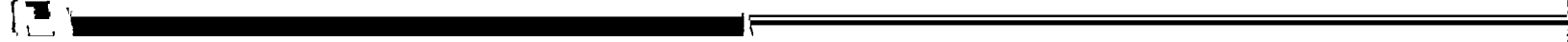

AT&T shares the concerns which underlie the Joint Petition and supports the request for a rulemaking and Joint Board action. AT&T, however, disagrees with Petitioners' proposal that the Commission hold in abeyance the pending Section 214 applications until the associated cost issues have been resolved.<sup>4</sup> Instead, any approval of the pending applications should be conditioned on compliance with the rules and allocations developed in the rulemaking and by the Joint Board. Such conditioned approvals would allow consumers to receive the benefit of innovative new broadband services while ensuring that the customers of those services bear the associated costs.

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<sup>4</sup> Id., p. 5.

BACKGROUND

In its Video Dialtone Order, the Commission paved the way for LECs to deliver a broad array of new consumer



date on the pending applications, concerns have been expressed that current separations and accounting rules permit LECs to subsidize the cost of video dialtone services with charges to telephone users.

The only Commission ruling on a video dialtone application involved a 300-person employee trial.<sup>9</sup> In that

plans to spend several billion dollars over the next few years implementing video dialtone capabilities. For example, US West announced that it will spend \$10 billion on these capabilities in its 14-state territory, while Pacific Bell and New Jersey Bell have announced similar plans for California and New Jersey, respectively.<sup>13</sup> Absent action now, many of these video dialtone costs could be borne by telephone service customers. The time is ripe for the Commission to address the cost issues associated with video dialtone in a systematic and comprehensive manner.

I. THE COMMISSION SHOULD ASK A JOINT BOARD TO EXAMINE THE TREATMENT OF VIDEO DIALTONE COSTS

The Joint Petition asks the Commission to establish a Federal-State Joint Board to determine "the proportion of video dialtone plant to be assigned to telephone service, and thereby be subject to the separations process."<sup>14</sup> The Petitioners note that video dialtone is an interstate service, which will involve substantial use of, and investment in, the local loop.<sup>15</sup> Accordingly, Petitioners seek a greater allocation of local loop costs to the interstate jurisdiction so that such costs may be borne by customers of the services that cause the costs. Id.

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<sup>13</sup> UPI, Pacific Bell To Spend \$650 Million In Fiber Optic Upgrades (May 20, 1993).

<sup>14</sup> Joint Petition, p. 11.

<sup>15</sup> Id., pp. 11-13.

AT&T agrees that a Joint Board should be constituted to examine the impact of video dialtone services on jurisdictional separations.<sup>16</sup> Under current rules, local loop costs are allocated between the intrastate and interstate jurisdictions in a 75/25 ratio.<sup>17</sup> As a result, 75 percent of video dialtone loop costs will be allocated to intrastate services even though all video dialtone revenues are associated with interstate services.

LEC costs of video dialtone deployment should be imposed upon the cost causers and users of video dialtone services. The Commission has long recognized that "costs should be assigned to the cost causer in order for society to best utilize its resources."<sup>18</sup> Indeed, in the C&P of Virginia Order, the Commission explained that it was "guided by the principles that all video dialtone costs should be assigned to the video dialtone trial" to ensure that ratepayers of other regulated services were not subjected to

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<sup>16</sup> Contrary to Petitioners' suggestion, however, the purpose of a Joint Board would not be to preclude application of the separations process to video dialtone costs. Instead, video dialtone costs properly are subject to separations just like the costs of other regulated common carrier telecommunications services. A Joint Board should consider, however, whether the separations formula needs to be changed to reflect the incurrence of costs for video dialtone service.

<sup>17</sup> 47 C.F.R. § 36.154(c).

<sup>18</sup> In the Matter of MTS and WATS Market Structure, 93 F.C.C.2d 241, 401-02, recon., 97 F.C.C.2d 682 (1983), remanded in part sub nom. NARUC v. FCC, 737 F.2d 1095 (D.C. Cir. 1984), cert. denied, 469 U.S. 1227 (1985).

unjust and unreasonable rates.<sup>19</sup> A necessary step toward achieving the Commission's objective is, as the Joint Petition proposes, a Joint Board.

Examination of the separations issues associated with video dialtone should be coupled with any related issues pending before the Joint Board and resolved in a comprehensive proceeding. Because video dialtone services utilize the local loop in common with other interstate services, questions concerning separation of loop costs should be resolved in a single proceeding rather than in a series of ad hoc proceedings.

II. THE COMMISSION SHOULD MODIFY ITS ACCOUNTING RULES TO ISOLATE VIDEO DIALTONE COSTS

The Joint Petition also requests modification of Part 32 of the Commission's rules to account for video dialtone costs.<sup>20</sup> The Joint Petition points out that, under the existing rules, the basic elements of the historical local network structure -- loops, trunks, local switches and tandem switches -- are not recorded separately in LEC accounting records. Absent separate accounts for these investment categories such as loops and trunks, the LECs retain substantial flexibility to apportion costs among service categories instead of aligning costs with the cost-causing services. This flexibility permits LECs to

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<sup>19</sup> C&P of Virginia Order, para. 13.

<sup>20</sup> Joint Petition, pp. 16-17.

attribute costs caused by video dialtone services to telephone services, with a resulting subsidy.

Even the interim accounting rule imposed by the Commission in the C&P of Virginia Order does not prevent this potential subsidy. In that order (at para. 13), the Commission required C&P to isolate the incremental costs of video dialtone services in separate subaccounts. The accounting rules, however, should provide further guidance for identifying such incremental costs. Otherwise LECs may claim -- as New Jersey Bell has done -- that video dialtone services impose no incremental costs for plant such as fiber trunks and loops or for the associated electronics. The Joint Petition argues persuasively (p. 8) that it is highly unlikely that the incremental fiber costs for video dialtone services are zero. It defies credibility for LECs to claim that fiber and electronics installed solely for telephone use nevertheless just happens to have sufficient massive excess capacity down through the local loop that the fiber can also carry high bandwidth video dialtone services.

AT&T supports commencement of a rulemaking to reflect the implementation of video dialtone facilities in Part 32, particularly as it affects loop and trunk investment and related expenses. Such a rulemaking should be broad enough to assess proper accounting for all LEC local network costs, not just video costs. The objective of Part 32 modifications should be to ensure that LECs do not



have the ability to subsidize services facing potential competition with revenues from other LEC services.<sup>21</sup>

III. THE COMMISSION SHOULD MODIFY ITS LEC PRICE CAP  
STRUCTURE TO PREVENT CROSS-SUBSIDIZATION

The Joint Petition further proposes that the Commission commence a rulemaking to "require local exchange carriers to establish a separate access charge category for video dialtone to ensure that video dialtone costs are not subsumed in access services provided to interexchange carriers."<sup>22</sup> AT&T supports this proposal, which AT&T itself advocated in its comments in this Docket which preceded issuance of the Video Dialtone Order.<sup>23</sup>

The Commission should modify the LEC price cap structure to ensure that LEC rates for broadband services such as video dialtone are not artificially lowered and subsidized by increased rates for narrowband voice services. Specifically, the Commission should establish a separate service basket or service band for video dialtone services. This would ensure that the costs of broadband facilities are

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Commission will enhance the likelihood of a fair market test of unsubsidized competition between the LECs and other broadband service providers, such as cable companies.

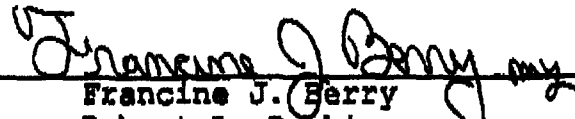
CONCLUSION

AT&T supports the Petitioners' request for a Joint Board and for commencement of a rulemaking to address the implementation of video dialtone capabilities. Only by modifying the LEC regulatory framework to reflect changing conditions can the Commission establish cost-based pricing and prevent subsidies. Cost-based pricing will ensure that costs are borne by users of the cost-causing services and create one of the necessary conditions for a market test of competitive possibilities for LEC services.

Respectfully submitted,

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May 21, 1993

CERTIFICATE OF SERVICE

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